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**Digital Agenda Scoreboard 2013**

**CHAPTER 5**

**5. INTERNET CONTENT**

**5.1. Introduction**

Increased frequency of internet usage, coupled with faster speeds and the growth of mobile access are accelerating recent trends in internet use and inducing new and different behaviour patterns by users. On the other hand, consumers increased demand for services, information and entertainment "anytime, anywhere", is putting pressure on providers of services, content and equipment for constant innovation. This dynamic interplay between demand for new services and the development of technologies making them possible is generating a fast-changing landscape in the industry.

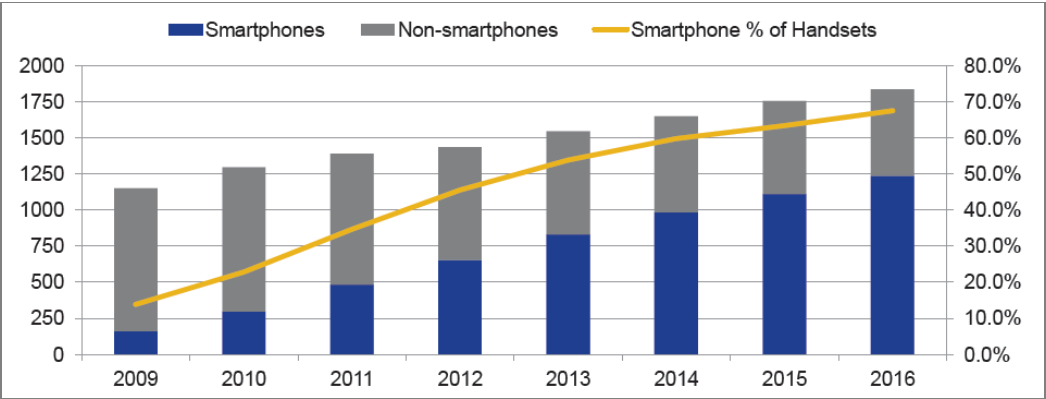
**5.2. Market trends**

*5.2.1. Mobile Internet access*

Mobile data traffic is driving an exponential increase in data transmission through the internet. Mobile devices like smartphones and tablets are increasingly moving away from being purely "utility" devices, with entertainment occupying more and more of a central role in the usage of internet on the go.

Smartphones are expected to account for more than half of all handset shipments in 2013, and the percentage is expected to continue to grow, mainly due to decreasing prices and the perceived value and greater integration of mobile apps into everyday life (Figure 124).

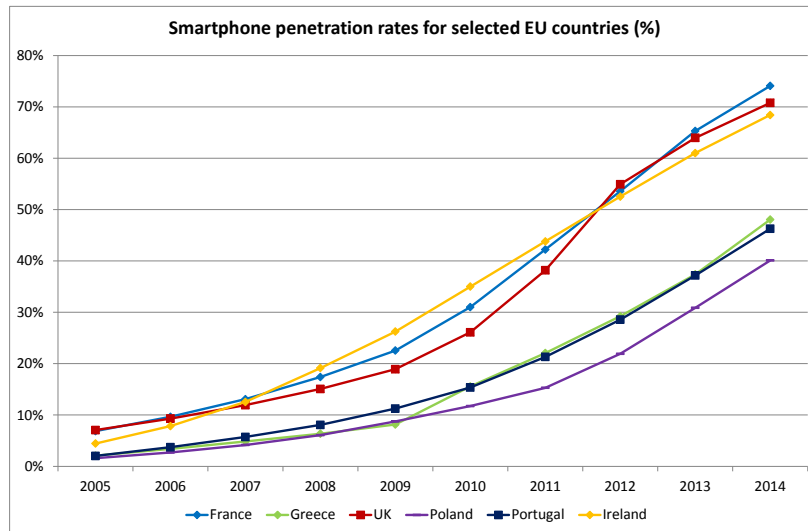
**Figure 124: Handset shipments evolution**



*Source: HIS ScreenDigest*

But adoption levels are not homogeneous across Europe: While in France, the UK and Ireland the penetration rate of smartphones already exceeds 60% in 2013, Greece, Portugal and Poland have adoption rates below 40% (30% in the case of Poland) (Figure 125).

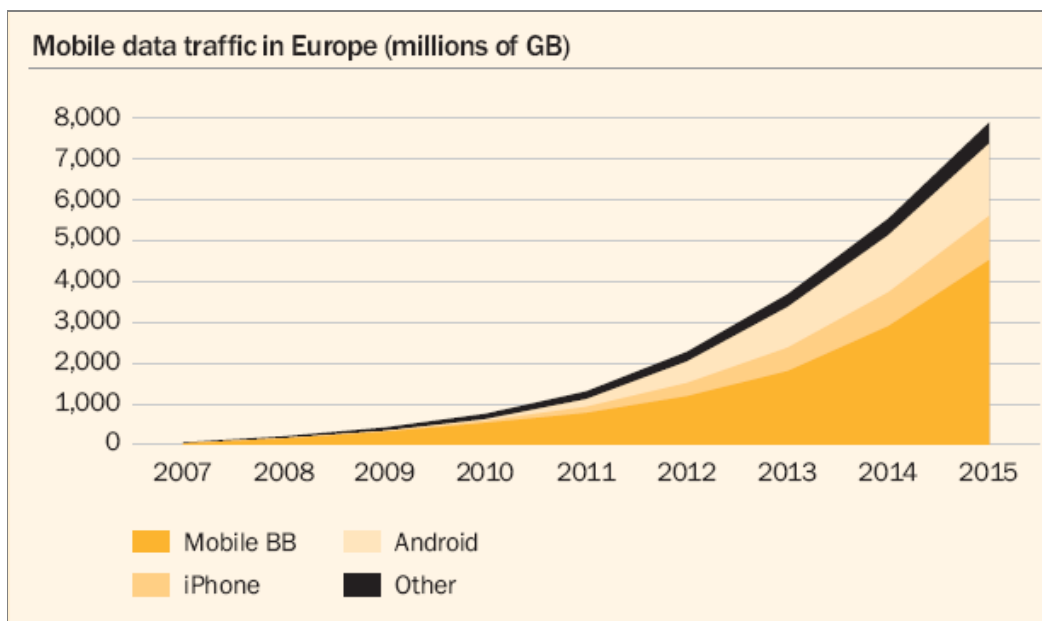
**Figure 125: Smartphone penetration rates for selected EU countries**



Source: HIS ScreenDigest

Smartphones and mobile broadband services are driving the exponential increase in mobile data traffic in Europe. The volume of mobile data traffic is expected to grow more than tenfold in the period from 2010 to 2015, reaching almost 8.000 million GB of data (Figure 126).

**Figure 126: Mobile data traffic in Europe (millions of GB)**



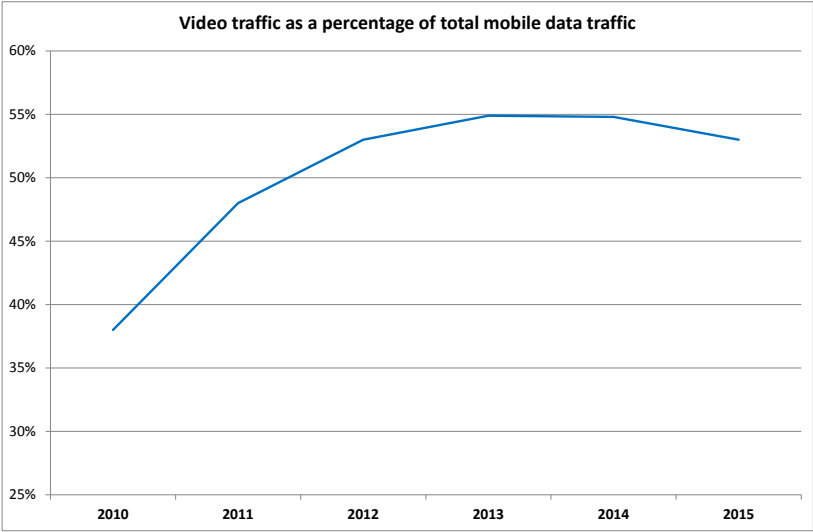
Source: HIS ScreenDigest

The enhanced speed of 4G or Long-term Evolution (LTE) is also increasing the attractiveness of games, video and interactive services. And it is projected that mobile video data traffic will grow nearly 14 times by 2015<sup>1</sup>, representing over half of total data traffic (Figure 127). This will be mainly driven by YouTube (1 billion unique users are now visiting Youtube every

<sup>1</sup> ScreenDigest January 2012 report

month, nearly one out of every two people on the Internet), but with 4G long form video becoming more viable over mobile networks (Figure 128).

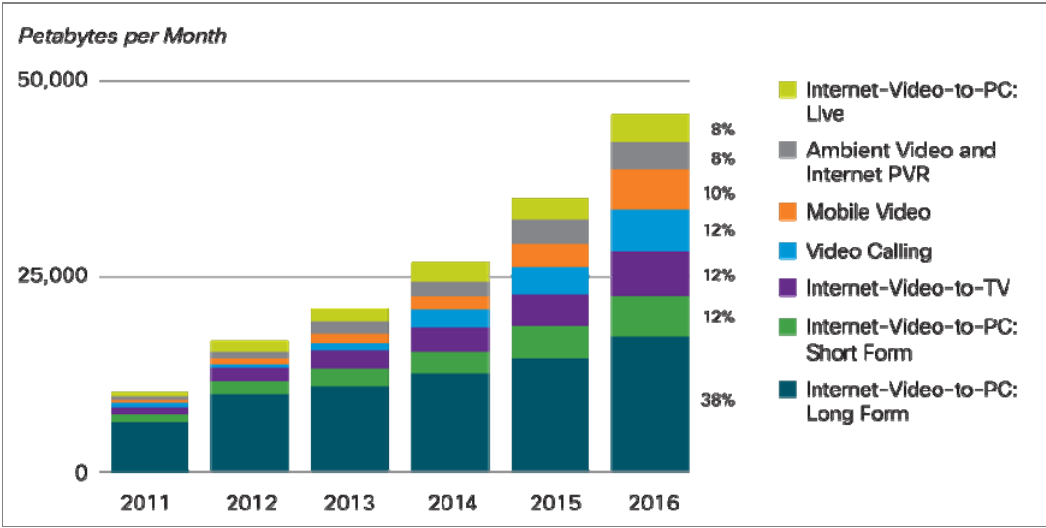
**Figure 127: Video traffic as a percentage of total mobile data traffic**



Source: HIS ScreenDigest

Yet mobile video is just around 10% of total Internet video traffic. While long form video-to-PC is expected to account for the biggest share of video traffic, other forms are expected to grow further in relative importance.

**Figure 128: Global Consumer Internet Video Traffic**

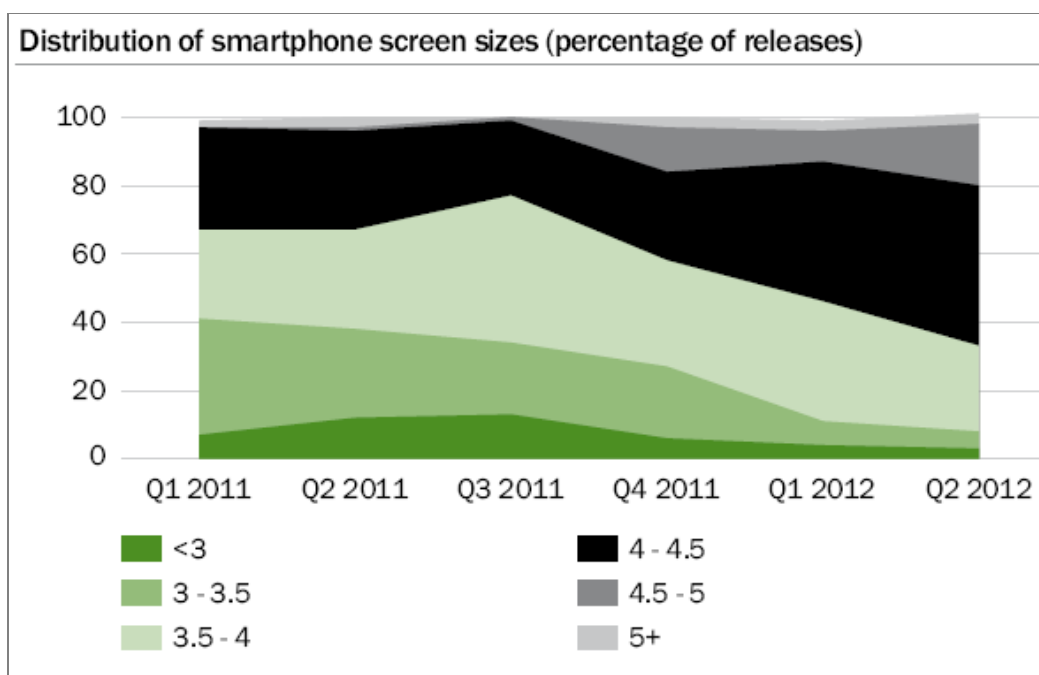


Source: Cisco VNI Global Forecast, 2011-2016

5.2.2. Technology meets demand

The growing importance of video traffic in total mobile data traffic is coming hand in hand with changes in mobile devices themselves. Smartphone producers are now delivering models with better colour reproduction and easier to view in daylight, as well as larger screens to make them more suitable to video viewing than previous models (Figure 129):

**Figure 129: Distribution of smartphones screen sizes (percentage of releases)**



Source: HIS ScreenDigest

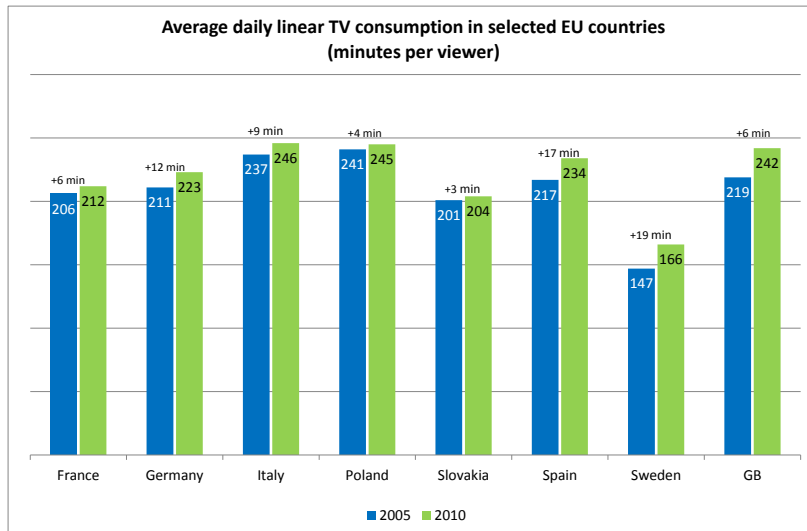
This is a very new trend that began in late 2011 with the launch of new devices and has continued throughout 2012. It is having a very noticeable effect on consumer behaviour, with mobile video consumption, as observed before, finally becoming a mainstream activity after many years of trials, launches and commercial failures. Consumer demand now for HD content for their large smartphones is in turn driving the deployment of faster 4G networks. It is also having a noticeable impact on both the movie and the television industries. Besides the ones mentioned in the next point, it is worth mentioning the emergence of Social TV apps that allows the user to interact and share comments about specific TV shows or movies while watching.

### 5.2.3. Television "anytime, anywhere" and online movies

The emergence of faster and widely accessible internet connection is having an impact on the television and movie sectors, the outcome of which is still hard to realize. Still, concepts like SmartTV, PayTV or VoD (video-on-demand) should soon become more familiar than traditional direct television or movie viewing.

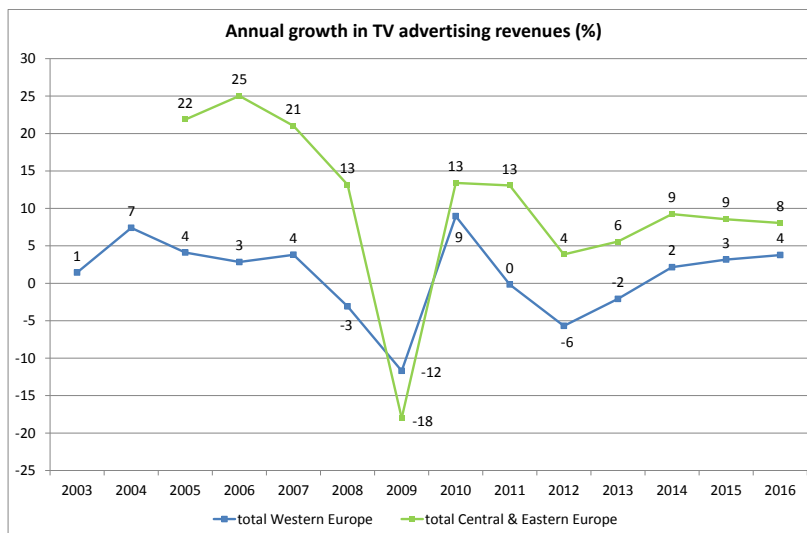
The traditional TV sector is showing considerable resilience to the changing ecosystem. The once fashionable belief that the Internet would "kill off" television has lost all credibility. The European television business is holding on: Average daily linear TV viewing times have been increasing in most major European countries (Figure 130), and the growth in TV advertising revenues has been mainly on positive ground (let aside the severe dip in 2009 and 2012 associated with the economic crisis) (Figure 131).

**Figure 130: Average daily linear TV consumption in selected EU countries (minutes per viewer)**



Source: 2013 e-Media Institute

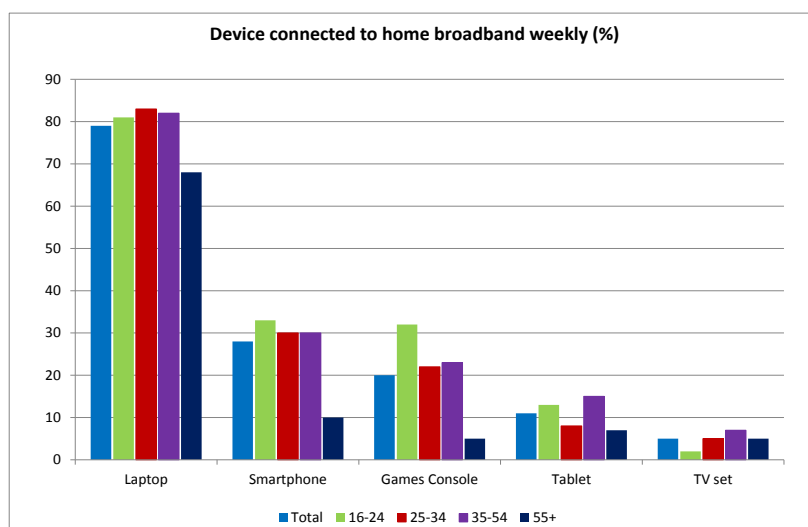
**Figure 131: Annual growth in TV advertising revenues (%)**



Source: HIS ScreenDigest

But the emergence and rise of connected viewing is changing the rules of the game, and is expected to increasingly keep doing so. More than one out of every four television sets shipped worldwide in 2012 was a smart TV. This will increase to over half in 2015. Continuing growth in wired broadband and Wi-Fi access and the recent launch of 4G are benefiting the downloading and streaming experience in different connected devices, which have as well been catching up in terms of screen size and colour reproduction quality. Even though the laptop is still the leader device used in connecting to the internet at home, smartphones, game consoles and tablets are increasingly being used by individuals, while connected TV sets are still expected to pick up in the coming years (Figure 132).

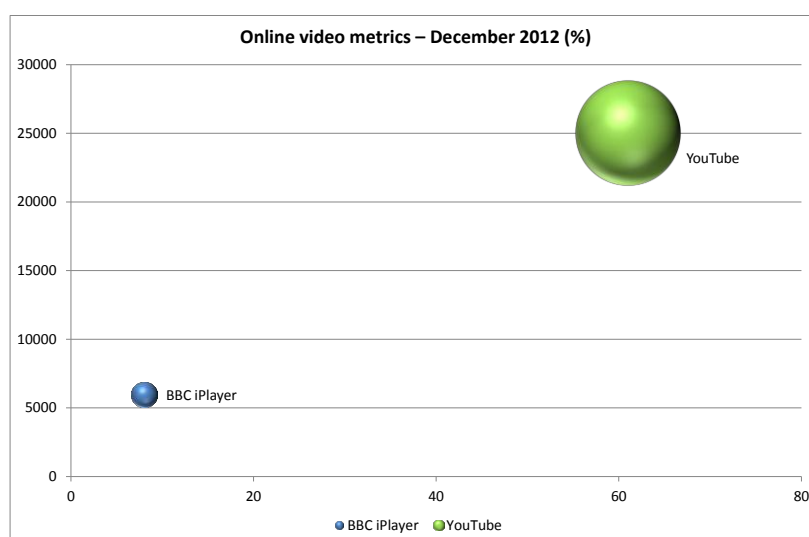
**Figure 132: Device connected to home broadband weekly (%)**



Source: Ofcom; GfK

One reason for the much higher volume of online access on other screens than the TV is the prominence of short-form content. Viewing stats for the PC, 59% of total online video time in December 2012 in the UK was consumed by YouTube, which dwarfed all other online video sites (Figure 133).

**Figure 133: Online video metrics – December 2012 (%)**



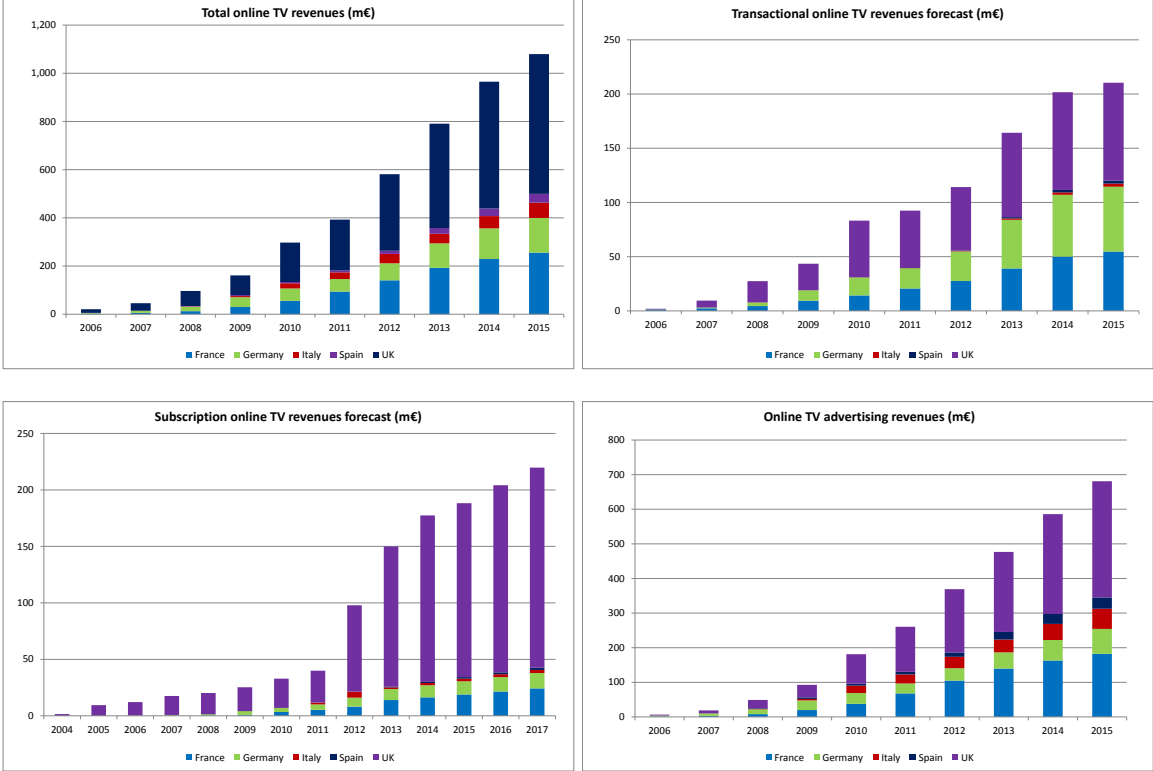
Source: Nielsen

But established broadcasters have not sat back and are at the forefront of innovation in the sector, investing significantly in content for online and multi-device distribution, with broadcasters' own sites among the most popular online video destinations in many European countries<sup>2</sup>. The European audiovisual industry has grown 56% in the decade between 2000 and 2010, and it was worth around €279 billion (2.3% of GDP) in 2010. Broadcasters are very active and reinvesting about 50% of their turnover in new content<sup>2</sup>, an increasing share of that being invested in dedicated online content. For example, the European broadcaster RTL Group reported a 25 per cent increase in online video consumption in 2012, with its services

<sup>2</sup> Creative Media Europe, Audiovisual Content and Online Growth, March 2012

generating over 2.4bn user-requests for professionally-produced content. Additionally, for the major broadcasters in Europe, video consumption via mobile devices accounts for between 15 and 20 per cent of video requests, which is also a noticeable impact of the previously mentioned increase in video-suitable mobile devices available. The established broadcasters are feeding this trend, and *Youtube* recently announced that it is launching more than 60 new video channels with content from Britain, Germany and France.

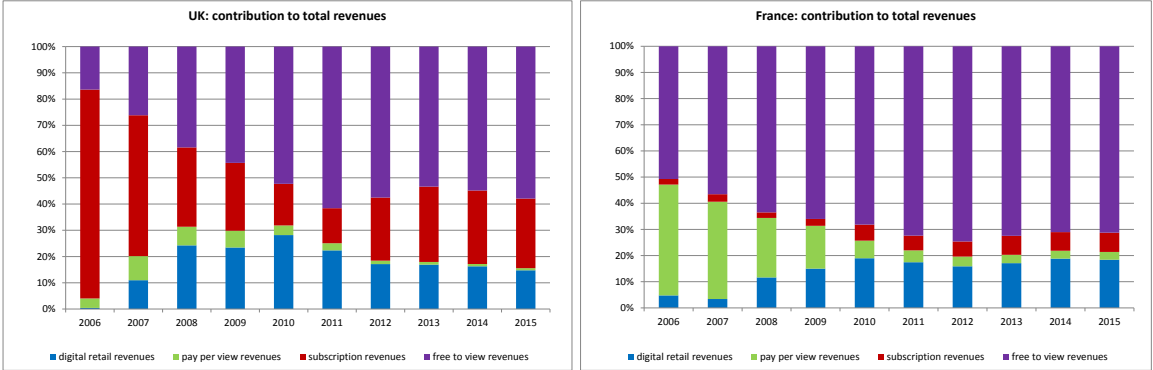
**Figure 134: Online TV revenues by category (m€)**



Source: HIS ScreenDigest

In the five largest EU markets, total online TV revenues have been increasing exponentially, and are forecasted to surpass a thousand million Euros in 2015. The UK, France and Germany are the largest contributors to this trend, while in other countries this market is still rather small. While with regard to transactional online TV revenues (consisting of digital retail revenues and pay per view revenues) these 3 countries share similar relevance, online TV advertising is bigger in the UK and France, while the subscription sector is significantly more advanced in the UK than in any other country (Figure 135).

**Figure 135: Contribution of each category for total Online TV revenues (%)**



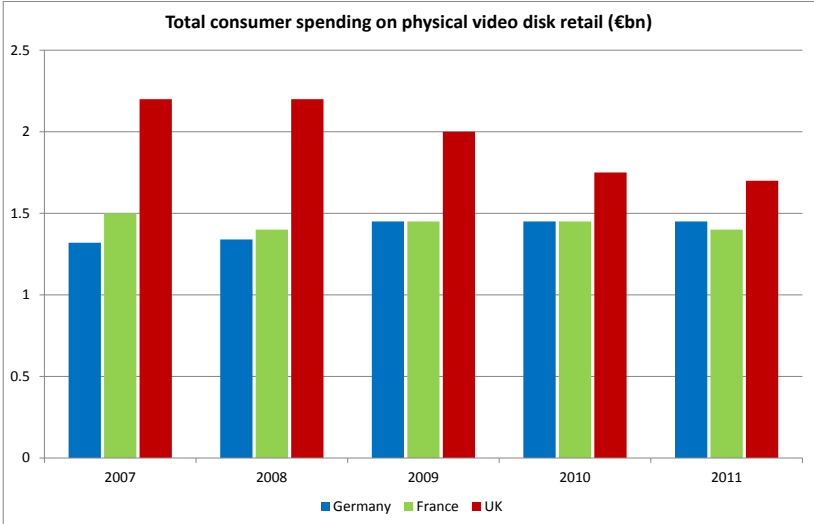
Source: HIS ScreenDigest



Comparing the contribution of the different segments to total online TV revenues, in both countries free-to-view revenues make up 60% or more of total online TV revenues, digital retail make up 20% or less, and the subscription sector is quite relevant in the UK, accounting to more than 20% of revenues (where Netflix, Lovefilm and Virgin Media try to challenge the clear leading position of BskyB).

The increase in subscription services is also taking its toll on physical video retail (Figure 136). There is a slow but steady downward trend throughout Europe in consumer spending on physical video disk retail. This trend is quite visible in the case of the UK, and still perceivable in France.

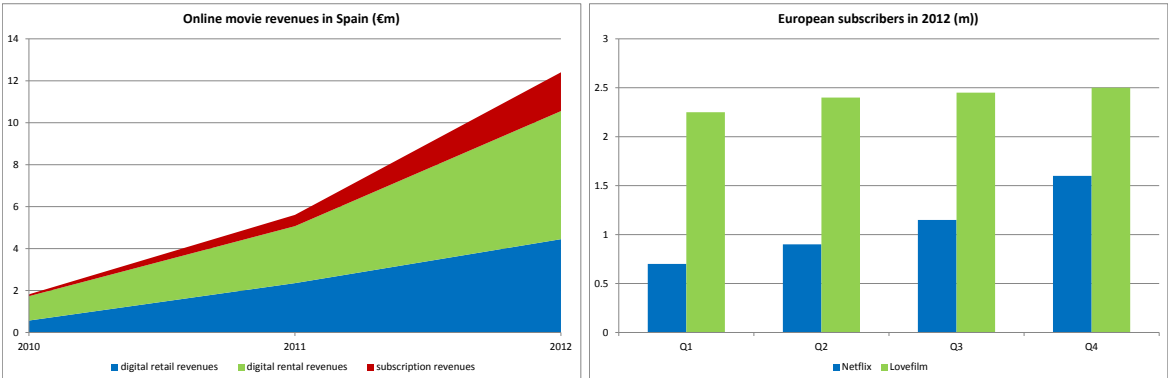
**Figure 136: Total consumer spending on physical video disk retail (€bn)**



Source: HIS ScreenDigest

Part of the reason behind these trends can be exemplified with the help of the following figures. The chart on the left shows the increase from online movie revenues in Spain. The market for online movies in Spain was worth €5.7m in 2011, showing 211 per cent growth and the market is expected to more than double in 2012, reaching €12.5m. Additionally, the figure on the right displays the increase in the number of European subscribers throughout 2012 to Lovefilm and (mainly to) Netflix, two online video providers.

**Figure 137: Online movie revenues in Spain (€m) and European subscribers to Netflix and LoveFilm**



Source: HIS ScreenDigest

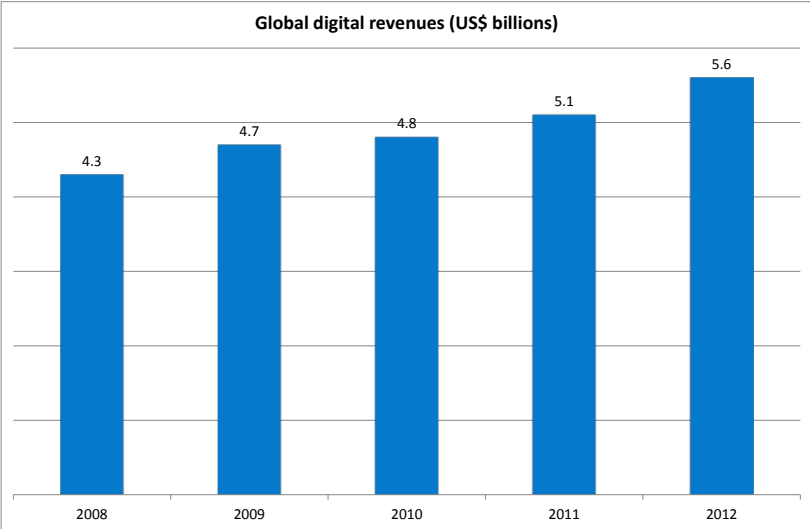
Regarding online viewing of TV and video content, differences can still be observed at the extremes of the age spectrum, between groups aged 16-24 and +55. In the UK, watching

video clips (for example through *Youtube*) is the most common activity, while Video on Demand (VoD) movie watching has not yet gained that much popularity.

5.2.4. *The online music market*

Digital revenues increased by an estimated 9 per cent to EUR 4.3 billion in 2012, now accounting for around 34% of global industry revenues, continuing the growing trend of previous years (Figure 138). These results are of growing importance to the industry, which recorded growth in 2012 for the first time since 1999. The EUR 12.6 billion revenues represent an increase of 0.3%<sup>3</sup>.

**Figure 138: Global digital revenues (US\$ billions)**

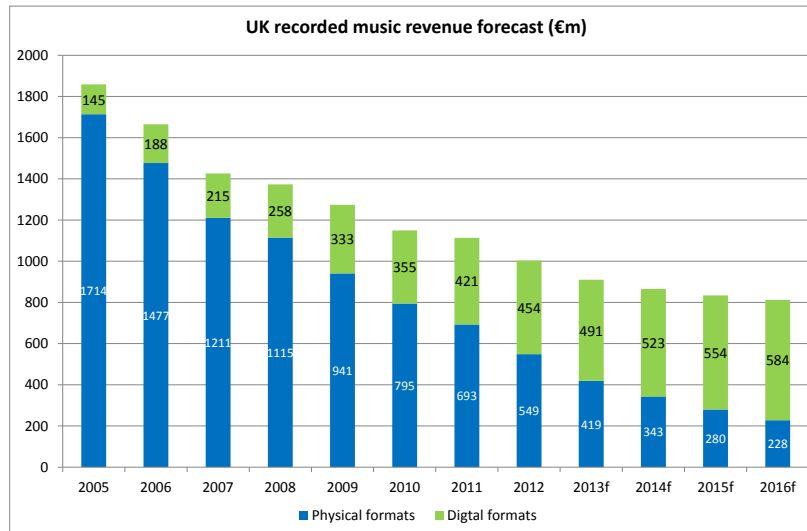


Source: EFPI

But when considering Europe alone, the picture looks less optimistic for the industry as a whole. For example in the UK, by far the largest music market in Europe, the evolution of the recorded music revenues reveals a daunting prospect (Figure 139):

<sup>3</sup> IFPI Digital Music Report 2013

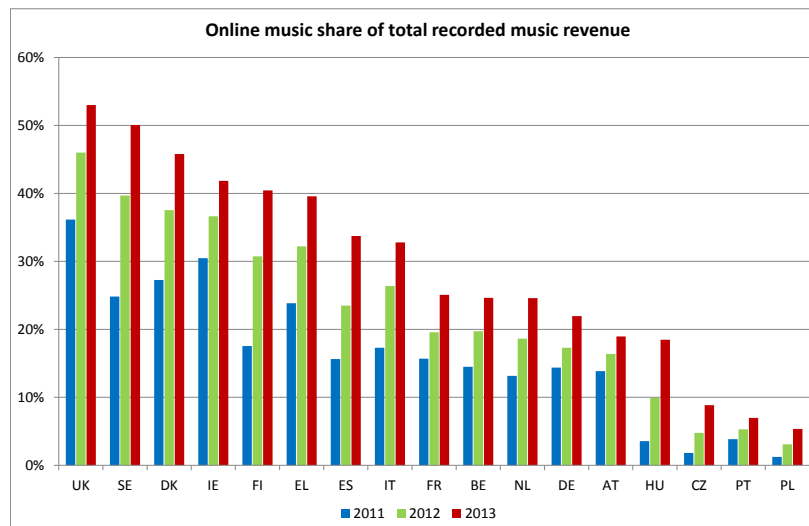
**Figure 139: UK recorded music revenue forecast (€m)**



Source: Enders Analysis

Two striking features emerge: the decline in the overall size of the market, and the stark increase in the contribution of digital formats to overall revenue. The turning point is expected to occur in 2013 for the UK, when more than 50% of the revenues will come from digital formats. Other European countries (like Sweden, Denmark and Ireland) will approach this pattern, with more than 40% of recorded music revenues expected to come from digital formats in 2013, but significant cross-country differences still persist: for example, in Portugal and the Czech Republic this contribution will still fall below 10%. The average for Europe is in line with the global share mentioned above: some 34% of global industry revenues come from digital formats (Figure 140).

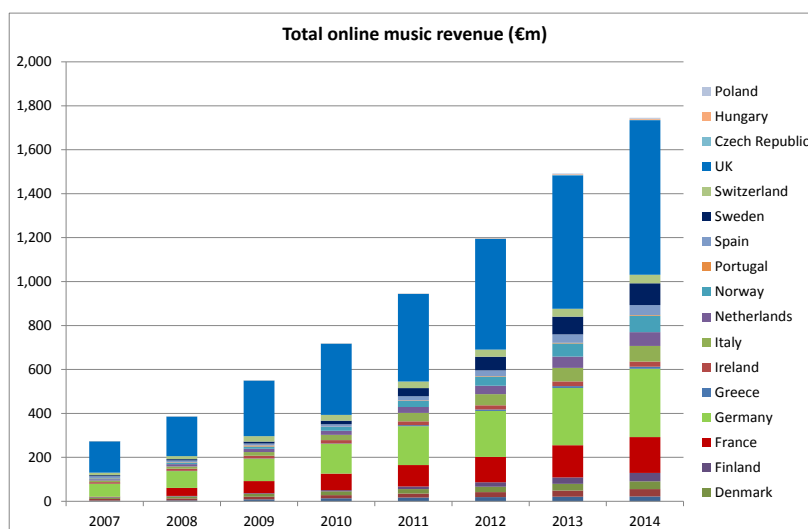
**Figure 140: online music share of total recorded music revenue (%)**



Source: HIS ScreenDigest

The mentioned increase in absolute revenues from online music for the UK is featured as well in other European countries. Even though the UK is by far the largest market and the biggest contributor to its growth, the German online music market is also growing and gaining importance. France is the third biggest market, but it is interesting to observe the noteworthy growth in Sweden, and as well in Norway and Italy (Figure 141).

**Figure 141: online music revenue (€m)**

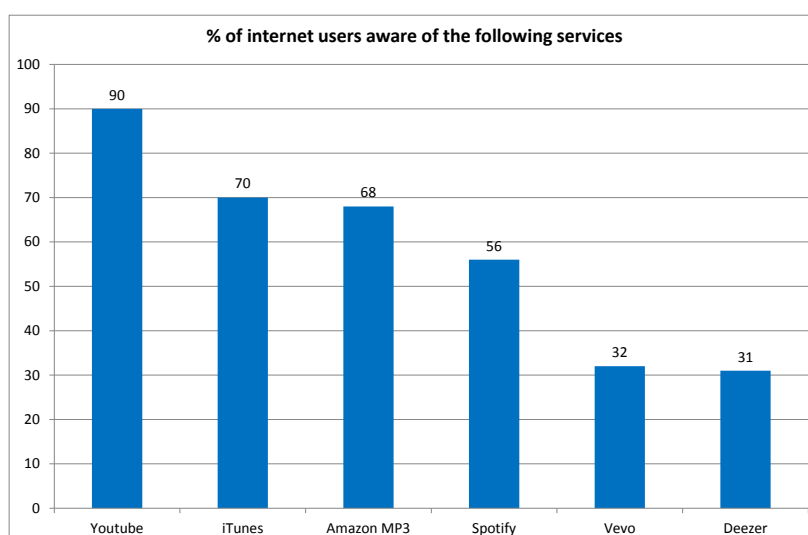


Source: IHS Screen Digest

The importance of online music is not confined to its own borders. Though the CAGR of 38% from 2006 to 2016 of total online music consumer revenue is impressive in itself, music is an engine of the digital world, helping drive a wider digital economy, ranging from social networks to devices, broadcasters and live performance. Music is also helping power social media platforms. For example, nine in 10 of the most watched videos of all time on *YouTube* are music videos. Nine in 10 of the most liked people on *Facebook* are artists. Seven of the top 10 most followed people on *Twitter* are artists<sup>4</sup>.

*Youtube* is the leading platform in terms of consumer awareness in what regards listening to music online as well, way ahead of services like *Spotify* (Figure 142). It has also been observed to be one of the leading means through which young people listen and share music and are aware of new artists (in association with social networks).

**Figure 142: % of internet users aware of the following services**



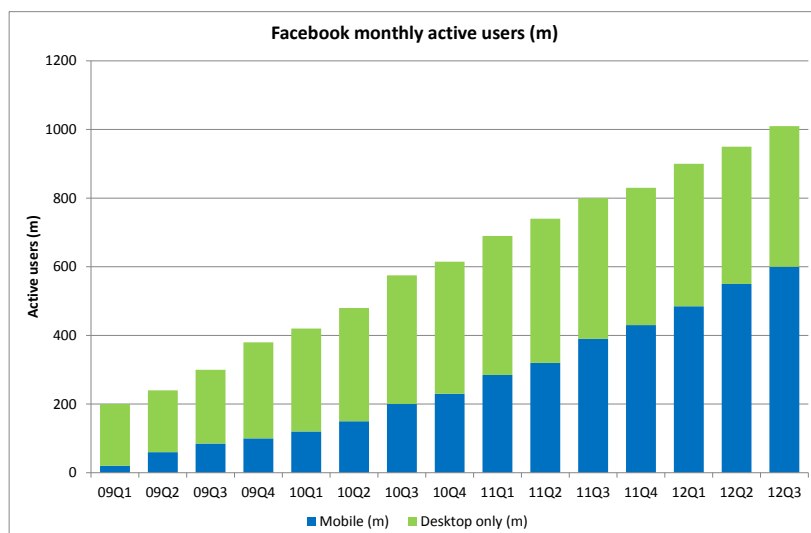
Source: Ipsos Media CT

<sup>4</sup> IFPI Digital Music Report 2013

### 5.2.5. Social networks and online gaming

As described above, the use of social media sites has grown over the past few years and posting messages to social media sites or instant messaging has become one of the most popular activities of European internet users with same levels of take-up as reading newspapers or internet banking. Social networking is above all a mobile activity; in 2012 58% of people who used the internet on the move with a handheld device participated in social networks. Facebook is by far the largest social network in the EU. With more than 1bn total active users, 60 per cent of them access it on mobile devices (Figure 143).

**Figure 143: Facebook monthly active users (m)**



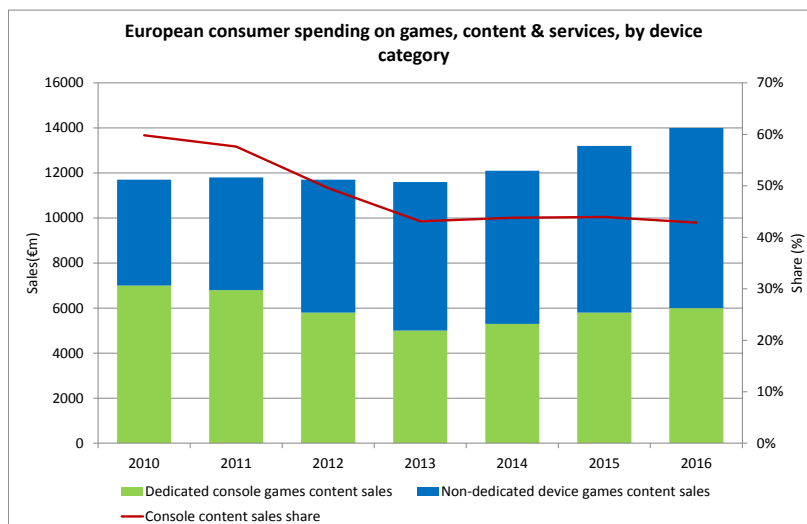
Source: HIS ScreenDigest

Social networks like *Facebook* are also driving another trend: that of video games played online in non-dedicated devices (Figure 144). In 2012 there was an increase in the number of cheap connected devices used as games consoles. These devices are commonly based on custom versions of smartphone applications and are built to offer more advanced games that, while not at the level of established consoles and PC games, are a more competitive offering than many existing smart TV apps.

Social network services are also one of the driving factors behind the production and uptake of casual games played on general purpose devices supported by online app stores, including the PC browser, smart phones and tablets, and to a lesser degree smart TVs and TV connected boxes. Surveys in 2012 put gaming rates of smartphone users at around 40%. Casual gaming on these platforms is reaching a much broader market and demographic than that tied to dedicated consoles and handhelds, reaching older age groups and levels of female players almost equalling that of male players. This is accompanied by radical shifts in the business models away from a product to a service model, with revenues from freemium services such as game purchases, virtual currencies, subscriptions, upgrades and in-game advertising and marketing games. Growth is occurring not only in game production, but in dedicated social gaming platforms that provide messaging, monetisation and gamification services<sup>5</sup>.

<sup>5</sup> Stewart J and Misuraca G (2012) The Industry and Policy Context for Digital Games for Empowerment and Inclusion: Market Analysis, Future Prospects and Key Challenges in Videogames, Serious Games and

**Figure 144: European consumer spending on games, content & services, by device category**

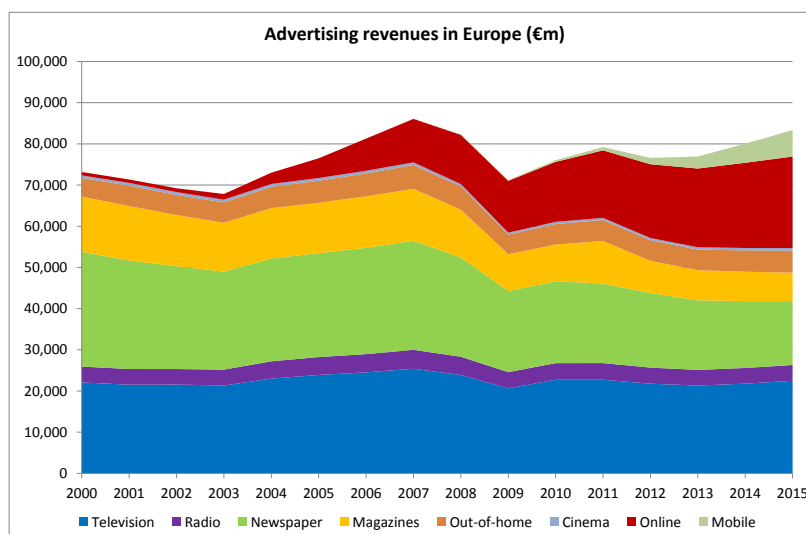


Source: HIS ScreenDigest

### 5.2.6. Advertising

The financial crisis had deep consequences for advertising revenues throughout Europe. After the severe dip in advertising revenues in 2009, the recovery in the traditional sectors has been meagre. In contrast, the online advertising segment has experienced a consistent increase in revenues ever since (Figure 145).

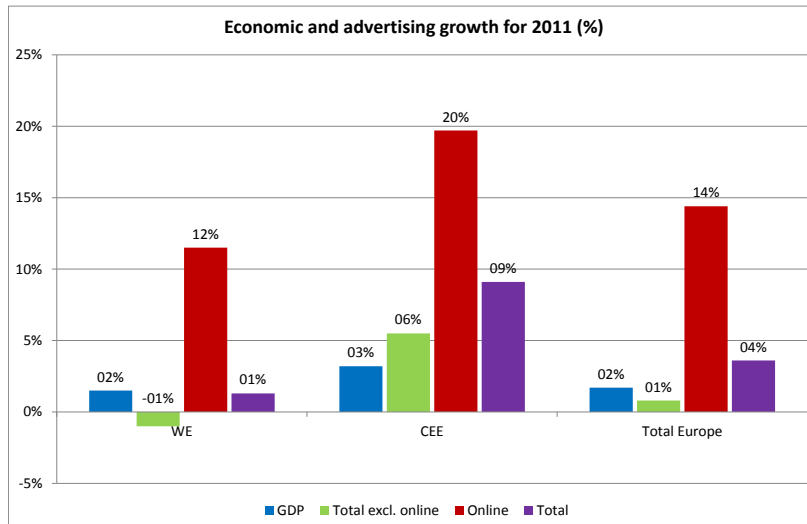
**Figure 145: Advertising revenues in Europe (€m)**



Source: HIS ScreenDigest

This increase in advertising revenues in Europe is quite remarkable considering the dire economic situation in most European markets. In 2011, advertising revenues grew at a rate that was twice that of European economic growth (Figure 146). Central and Eastern Europe (CEE) countries were very dynamic in driving growth, and confirm the vital importance on the online segment in driving this growth.

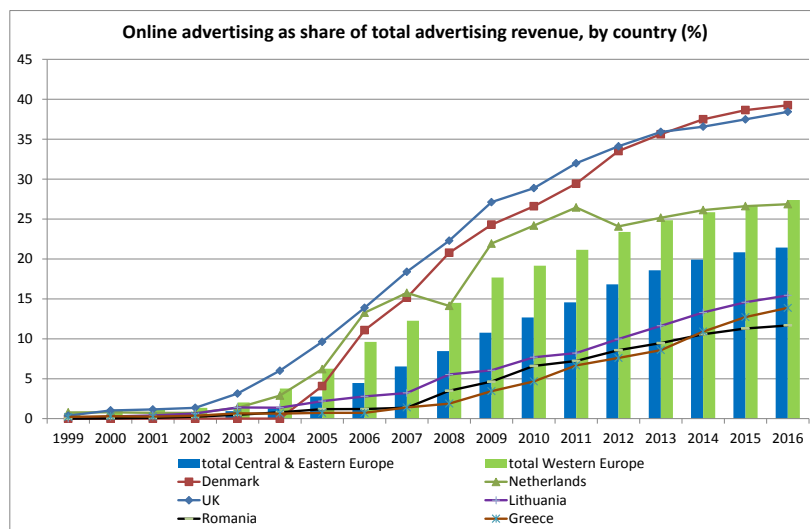
**Figure 146: Economic and advertising growth for 2011 (€m)**



Source: HIS ScreenDigest

The pronounced growth of the online segment and stagnation in traditional advertising has brought about a steep increase in the importance of online advertising as a share of total advertising revenues. But this phenomena is still in quite different stages in different countries: while mature markets like the UK, Denmark and the Netherlands display the highest shares (near or above 35%) and some level of saturation (a decrease in the rate of growth), Greece, Romania and Lithuania exhibit shares around 10% and a potential for further growth (Figure 147). There is a fast increase in Western Europe and a catching-up process derived from an even faster growth of online advertising as a share of total advertising revenue.

**Figure 147: Online advertising as share of total advertising revenue, by country (%)**



Source: HIS ScreenDigest

In conclusion, traditional means like TV advertising still amount for the bulk of the revenue, but flat growth in many markets (1.4% on average in Western Europe) calls for diversification of the traditional ad model. Broadcasters must advance their IP-delivered video advertising strategies to ensure sustainable growth in the monetization of content, since through the proliferation of tablets, mobile video consumption will escalate.

In 2012, mobile advertising grew 81 per cent globally. This was driven primarily by mobile internet advertising (display and search), which accounted for 71 per cent of total mobile advertising. For most advertisers, mobile has now become a fixture in their marketing mix.

Global mobile advertising revenue is predicted to increase 73 per cent year-over-year in 2013. Yet, the diversity of mobile advertising companies in terms of business models and philosophies also points to larger questions around the best way forward for mobile.

### **5.3. Conclusions**

The growth of digital content is forecasted to accelerate in the coming years, with digital formats accounting for more than half of revenues in the music industry, and sharply gaining importance in the audio-visual, advertising and videogames industries, replacing traditional physical formats. The widespread and increase in speed of broadband internet access and the development of more modern devices allows for a range of new usages whose demand, in turn, accentuate the pressure for technological development and innovation on the part of service providers.

Still, despite the overall increase in relevance of the overall economy, there are some relevant disparities across member states. The largest markets are at the forefront of change. In particular, the UK is by far the biggest market in what concerns for example online digital music sales, as well as subscription to online TV. Nordic countries as well display leading roles, for example on online videogames. But regardless of where countries are located in the adoption curve, and the speed at which new developments are being adopted, the trends are quite clear. Central and Eastern European countries are displaying very strong growth in the online advertising markets, outpacing Western Europe in its rates of growth. Digital content is blossoming, and video sites keep shaping the landscape, adding up to their user-generated content new offers of online channels and dedicated content generated by traditional broadcasters, who are themselves increasing their online offers.